BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

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| In the Matter of<br><br>PUBLIC UTILITIES COMMISSION<br><br>Instituting a Proceeding to Investigate Implementing a Decoupling Mechanism for Hawaiian Electric Company, Inc., and Hawaii Electric Light Company, Inc., and Maui Electric Company, Limited. | ) | Docket No. 2008-0274 |

**HAWAII SOLAR ENERGY ASSOCIATION'S**

**RESPONSES TO INFORMATION REQUESTS TO THE PARTIES**

**TRANSMITTED BY THE COMMISSION ON MARCH 5, 2009**

Hawaii Solar Energy Association (hereafter "HSEA") respectfully offers the following responses to the information requests transmitted by the Commission to the parties in this docket on March 5, 2009. HSEA responds below to the questions numbered 24 through 26 labeled "IR's for other Parties".

**24. At the technical workshop, the participants discussed that the proposed decoupling adjustment would create a bias for the utility to overstate test year sales and for rate increase opponents to understate test year sales. Please discuss.**

**Response:**

HSEA believes that a properly designed decoupling mechanism should eliminate any bias for the utility to understate or overstate test year sales in the context of a rate case because one principle purpose of a decoupling mechanism is to make a utility ambivalent to fluctuations in sales volumes (with respect to short term earnings). A properly designed decoupling mechanism would therefore eliminate the traditional gaming incentive for a utility to understate the assumed test year sales volumes used to denominate rates. At this point in the docket, however, HSEA is not prepared to evaluate the extent to which each of the three proposals from the February 13, 2009 technical workshop go furthest toward accomplishing this goal. Because of the complexity of the interactions of various rate design components with the proper workings of a decoupling mechanism, HSEA would strongly support efforts that result in a thorough numerical demonstration and verification of how the proposed decoupling mechanisms work in conjunction with all related rate design features.

25. **Sales decoupling, the RAM and REIS as proposed, each either reduce total risk or shift the risk of a utility not achieving the authorized rate of return to customers. Given the changes in risk associated with these revenue adjustment mechanisms please explain:**

a. **Why should the utility be allowed to retain any earnings in excess of the authorized rate of return rather than these earnings in excess of the authorized level being allocated to the benefit of customers? Please suggest a mechanism that could allocate these earnings to customers?**

**Response:**

The Consumer Advocate has proposed a mechanism to "return" or "share" earnings in excess of the authorized rate of return. HSEA has not taken a specific position regarding the Consumer Advocate's proposal but does support this or some similar sort of ratepayer protections in light of the substantial shifts in risks to utility customers that would result if HECO's proposed mechanisms are adopted.

Note that the Consumer Advocate's proposal would not disallow "any" and all retention in earnings above the authorized rate. The proposal would provide progressive limitations but never complete refund. One reason to allow at least some earnings above authorized limits, even if the fraction is small, is to maintain, at all levels of earnings, at least some incentive for the utility to control costs.

b. **Please discuss the effect the reduction and shift in risk should have on the utilities' authorized rate of return.**

**Response:**

Reductions in utility risk should result in reductions in utility financing costs and in the utilities' authorized rate of return. This is true whether the reduction in risk to the utility is an overall reduction in risk or is a shift in risk from the utility to ratepayers. HSEA has not quantified the extent of reductions or shifts in risks resulting from the proposals in this docket and has not quantified any impacts on the utilities' authorized rate of return.

**26. Please compare the regulatory cost associated with the proposed RAM and rate cases every two years.**

**Response:**

This is a good question but HSEA does not have the information required to formulate a meaningful response at this point in the docket. The proposed RAM would provide for a rate case for each utility each three years with RAM adjustments in at least two of each three years. There would be some additional complexity in each rate case to incorporate prior RAM adjustments into test year assumptions and to determine prospective RAM parameters. The proposed RAM would also require some additional customer protections such as those proposed by the Consumer Advocate. HSEA has not determined the costs or regulatory agency staff requirements associated with the RAM annual adjustments, the impacts on the complexity of each rate case or the establishment of necessary ratepayer protections. HSEA is still trying to assess what level of regulatory scrutiny would be required for the annual RAM adjustments.

## CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing HAWAII SOLAR ENERGY ASSOCIATION OPENING STATEMENT OF POSITION AND RESPONSES TO INFORMATION REQUESTS TO THE PARTIES TRANSMITTED BY THE COMMISSION ON MARCH 5, 2009 upon the following entities, by hand delivery or by electronic transmission as noted:

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Dated: March 30, 2009; Honolulu, Hawaii

Signed:

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